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AUTHOR	Augenblick, John: And Others
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ABSTRACT

This booklet examines specific legislation, court decisions, research and other activities of school finance reform in 1978-79. It also speculates about school finance reform activities in the states in 1979-80. The first chapter summarizes important school finance legislation. School finance litigation is examined in the second chapter. Research activities related to school finance reform are the subject of the third chapter. A brief overview of the state school finance activity expected in the coming year is examined in the last chapter. A glossary of school finance related terms is given in the appendix. (Author)

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School Finance Reform in the States: 1979

An overview of state activity in 1978-79, current trends in litigation, research in school finance and prospects for 1979-80

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Report No. F79-4

by John Augenblick

with the assistance of
Betsy Levin, Kent McGuire and Jane Mattingly

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Education Finance Center

Education Commission of the States
Denver, Colorado 80295
Warren G. Hill, Executive Director

July 1979

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John Augenblick is the assistant director of the Education Finance Center (EFC) of the Education Commission of the States. Kent McGuire is the assistant to the director of the EFC and Jane Mattingly is a research assistant in the EFC.

Betsy Levin, Professor of Law at Duke University, wrote most of Chapter II.

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Foreword

This publication is one of a series of school finance policy studies that the National Institute of Education (NIE/DHEW) is supporting at the ECS Education Finance Center. It draws upon the center's technical assistance activities with state legislatures and governors, as well as its demonstrated knowledge in this important field. NIE's sponsorship of this work is based on our conviction that the major burden for school finance equalization now falls on the nation's legislators and governors and that "goal oriented" research of this kind will lead to a more informed and productive debate on the subject of equity in school finance.

The emergence of this key role for state legislators and governors is the product of a series of important and far reaching court decisions. Beginning with the *Serrano* decision in California, a number of state courts have directed state legislators and governors to reconstruct the ways in which education resources are raised and distributed. In light of this state focus, it is particularly appropriate that ECS undertake research of this kind.

We at NIE hope this publication will serve the needs of legislators, governors, state and local education officials and interested citizens and thereby assist in the development and implementation of more equitable and effective systems of school finance.

David R. Mandel
Acting Assistant Director,
Educational Finance

Executive Summary

Progress in promoting the reform of school finance systems continued to be made in 1979 in the courts, in state legislatures and among researchers. The tax and spending limitation movement was the focus of much attention last year. Property tax limitations have had a severe impact on several states. Tax reform and limitations on school tax rate or expenditure increases continue to accompany school finance reform, making education responsive to taxpayers in ways that other public functions are not.

Connecticut and Massachusetts passed major school finance reform legislation in 1979. Connecticut's reform came after years of study, a court decision and careful consideration of alternatives. Massachusetts passed its new law in light of the need for property tax relief and the desire to coordinate its categorical and general aid programs. California and Idaho passed laws in an attempt to deal with mandated property tax limitations. Only time will tell the impact of such limitations on the education systems in those states. Illinois eliminated a component of its school finance system that rewarded local districts based on local tax effort. Washington implemented its new school support mechanism designed to support fully the basic education activities of districts.

In the courts, numerous challenges of state school aid systems were filed. School finance systems were declared unconstitutional in 1978 in New York and in 1979 in Colorado. The Ohio system was upheld in the supreme court of that state. New court cases are focusing on new issues, broadening earlier interpretations of state law, and responding in new pressures that are likely to change litigation strategies and outcomes in the future.

School finance research focused on two primary issues in 1979: the definition and measurement of equity and the assessment of the impact of school finance reform. Researchers are beginning to develop a framework for analyzing equity and despite technical complications, they are making progress in measuring the extent to which equity is being achieved. A major concern of researchers is what has been accomplished by reform efforts and a number of strides have been made in determining the programmatic and fiscal products. The federal government initiated a major research effort to analyze

school finance issues. This effort is likely to be completed over several years but it may lay the groundwork for new mechanisms for the provision of federal support to education.

Next year is likely to be a busy one in state legislatures as they grapple with new issues, monitor school finance systems, complete their 842 studies, and chart a course for the 1980s.

Introduction

School finance reform activities in the latter half of 1979 have mirrored, in the course of a single year, most of the kinds of activities that have characterized the school finance reform movement over the last decade. There was activity in the courts and in state legislatures as well as among researchers and citizen groups. The actions taken by each of these groups contributed solutions to previously identified problems while also raising new issues. An important feature of school finance reform activities during the last year is the acknowledgement of its growth from a narrowly defined issue to a broad one encompassing many aspects of public finance.

- School finance reform has long considered tax reform as an important component. During the last year, the tax and expenditure limitation movement, which sought to reduce the scope of government and the impact of taxation, became entangled with school finance reform.

- School finance reform has attempted to integrate the special needs of urban populations. During the last year, the question of municipal overburden was raised in New York's school finance court case.

- Last year, state legislatures continued to integrate the findings of researchers into their new school aid formulas, particularly those concerned with how local wealth is measured.

- Finally, school finance reform again took on a national interest as Congress mandated a study of school finance, with the possible implication of changing the basic role of federal support for education.

Within the past decade, more than half of the states have passed laws significantly changing the way by which state aid is distributed to school districts. A number of features characterize these changes.

- First, general aid formulas have incorporated property wealth equalizing provisions. That is, less wealthy districts have received more state support than very wealthy districts. This has been accomplished by "leveling up" less wealthy districts or dis-

tricts with relatively low expenditure levels rather than through redistributing funds from rich districts to poor districts. Only in a few states are recapture provisions used for redistribution purposes. In Utah and Montana such mechanisms have allowed some redistribution of state support. In Minnesota and California provisions were created to reduce state support for a portion of certain categorical programs although state general support was not affected.

Three basic types of formulas have been used in the effort to reduce the impact of wealth on school district expenditure levels. First, some states have enacted high level foundation programs. Arizona, Florida, Indiana, Iowa, Massachusetts, Minnesota, New Mexico, New York, North Dakota, South Carolina, Tennessee, Utah and Washington have taken this approach. Second, a few states have added power equalizing components on top of foundation programs so that above a specified expenditure level, districts are guaranteed to raise similar revenues at similar tax rates. Maine, Missouri, Montana, South Dakota and Texas have created school finance systems with two tiers. Third, several states have enacted formulas designed to reward equal tax effort with equal revenue yield, referred to as district power equalization, guaranteed tax base, guaranteed yield, or percentage equalization approaches. Under such an approach, Colorado, Connecticut, Illinois, Kansas, Michigan, New Jersey, Ohio and Wisconsin support school districts at expenditure levels chosen by the districts.

- Second, there has been increased attention paid to special, high cost student populations. There have been dramatic increases in aid for handicapped students with appropriations literally tripling in some cases. There are likely to be even more increases as the states attempt to comply with new federal initiatives in the area. In addition, some 20 states have enacted compensatory education programs. Both Illinois and Minnesota recognize the problems associated with increasing concentrations of students in such programs by raising the level of support with the concentration. Several states have initiated bilingual programs for students whose first language is not English, including Colorado, Texas, Illinois, New Mexico, California and New York. States have expanded these special population programs in two ways; through pupil weighted programs, such as those operating in Florida, Utah, New Mexico, Tennessee, South Dakota and South Carolina, and through expanded supplemental categorical programs.

- Third, support has been provided to school districts for fiscal problems related to certain district characteristics. State aid has

been made available to urban districts, to sparsely populated districts, to districts with high tax rates, to districts with less than average purchasing power and to small districts. Michigan, for example, allocates additional state aid to school districts in which the noneducation tax rate exceeds the statewide average by more than 25 percent. Florida uses a cost-of-living index to adjust its distribution of state aid. A number of states, including California, Minnesota, Missouri, New York and Texas are examining the use of cost indices.

- Fourth, new methods have been developed to measure the fiscal capacity of school districts. Kansas, Maryland and Pennsylvania use a combination of property wealth and taxable income in assessing local wealth. Connecticut and Rhode Island weight the property wealth measure by an income ratio that compares each district to a statewide figure or to that of the richest district. In Missouri, the deduction tax rate for the foundation portion of its formula is decreased for low-income districts and increased for high-income districts. Research has indicated that both income and the composition of the property tax base are important determinants of the expenditure decisions of school districts. One or both of these factors are being considered by a number of states as they review their school finance formula.

- Fifth, tax or spending limitations have been incorporated into formulas. More than two-thirds of the states have developed limitation procedures to control the growth in expenditures of schools. At least one impetus for these restrictions has been the declining enrollments of schools. Another has been a concern about the impact of inflation on schools. Current limitation methods do not deal with either of these issues directly. That is, schools are not protected from the fiscal problems associated with either declining enrollments or inflation and current tax or spending limitations may be hindering the achievement of other school finance reform goals.

The implementation of new school aid formulas has had a number of effects that are only beginning to be determined. It is clear that school finance reform has increased the level of funding for education in general. School finance reform has been accomplished only when a number of special interests of educators and legislators have received attention. Thus, in states that have undergone reform, expenditure levels are generally higher than they would have been had reform not occurred. One of the issues that has gone hand in hand with school finance reform is tax reform. The increase in state support has led to a reduction in local support and a concomitant decrease in reliance on local property taxation. Some of the funds made available for school finance reform were earmarked to diminish the impact of local property taxes. In addition, accompany-

ing school finance reform has also been accompanied by the improvement of property assessment procedures, the enforcement of assessment standards across districts, the initiation of circuit breaker mechanisms that reduce the impact of taxation for specific populations and the revision of state revenue generating systems, including the modification of corporate and individual income taxes.

In 1978-79 the context within which school finance reform occurred changed and reformers were forced to respond to pressures that had previously been latent. Perhaps the most significant of these was the tax and spending limitation movement, which scored an unanticipated victory in California in June 1978. Following on the heels of the passage of Proposition 13 came numerous tax reduction proposals initiated by citizens, legislatures and governors. In fact, only a few of the measures passed last November. It is not clear precisely what the people expected vis-a-vis education since, as revealed in polling completed after the vote, it was found that few voters knew what the impact of a tax reduction would be on education and, among all public services, most people wanted to see education expenditures increase (Palaich, forthcoming). Regardless of the motivation or confusion, the property tax reduction had profound repercussions for school finance, particularly in California and Idaho.

Two other movements have surfaced recently that are likely to affect school finance reform. During the past few years, a majority of the states passed regulations related to minimal competency testing and numerous states considered issues related to the provision of basic education. In the past, these issues have emanated from school finance litigation in the states. Several state aid systems have been declared unconstitutional on the basis of their inability to achieve a "thorough and efficient," "ample" or "uniform" education system. States have begun to respond to these rulings by incorporating basic education and minimal competency into their school finance systems. Washington, for instance, has created a system that will support fully basic education activities in the state by 1982. In part, these issues reflect the public's concern for efficiency in education and the desire to see tangible results when education expenditures are increased.

This booklet examines specific legislation, court decisions, research and other activities of school finance reform in 1978-79. It also speculates about school finance reform activities in the states in 1979-80. The first chapter summarizes important school finance legislation. School finance litigation is examined in the second chapter. Research activities related to school finance reform is the subject of the third chapter. A brief overview of state school finance activity expected in the coming year is examined in the last chapter. A glossary of school finance related terms is given in the appendix.

I. Legislative Actions in 1978-79

Perhaps the major issue of those concerned with school finance reform in 1978-79 was the purported citizen tax revolt, as exemplified by the passage of Proposition 13 in California. A great deal of legislative attention was given to tax issues between June, when the California initiative to reduce property taxes was passed, and November, when voters in several states faced tax or spending limitation proposals on the ballot. This activity focused attention on one of the major components of school finance reform, tax reform, but diminished the attention paid to restructuring state school aid distribution system. Thus, there were not many fundamental changes made to state school finance laws. Two states, Massachusetts and Connecticut, reformed their school finance systems, joining the two dozen states that in the previous six years had undertaken major reforms.

The Tax and Spending Limitation Movement in Retrospect

After the successful passage of Proposition 13 in June, 43 tax or spending limitation proposals were initiated in 27 states. Many of these were in the Proposition 13 mold, seeking to limit the level of property taxation and to control the future impact of taxes on property. Most of the proposals called for greater restrictions on tax spending increases than those that had already been passed since 1971 in Iowa, Indiana, New Jersey and New Mexico. All of the proposals incorporated broad limitations that went far beyond the existent limitations that affected increases in the tax rates or budgets of school districts in 37 states. Of the 43 proposals, 25 were tax limitations while 18 were spending limitations. Several also included tax restructure provisions. The majority of the proposals, 22, were initiated by legislatures, while 16 proposals were initiated by citizen action and 5 were initiated by governors.

By November, 21 of the 43 proposals had received sufficient support to be presented to the voters. Of these, 12 proposals passed and 9 failed. Proposition 13 type limits on property taxes passed in Idaho and Nevada, although in Nevada a second passage is required before the limitation takes effect. Alabama voters approved a property tax classification scheme, as did voters in Massachusetts. Arizona vot-

ers approved a lid of seven percent of aggregate personal income. Michigan voters narrowly approved only one of three tax reduction measures on the ballot. Property tax rollbacks were authorized in Missouri, individual income taxes were reduced in North Dakota and in South Dakota a new law will require a two-thirds vote of the legislature to increase existing taxes. Voters in Illinois advised their representatives that they favored tax and spending lids. Thus, only in six states were significant tax spending limits passed. Of these, Idaho faced the most severe threat of reduced education services due to the passage of Proposition 1, a Proposition 13 copy, and the lack of a state budget surplus, as existed in California, to reduce the impact of lost local property tax collections.

Many people interpreted this outcome, which hardly appears to be a movement, as a call for increased efficiency in government. In fact, however, it is difficult to interpret what the voters were reacting against or what they were trying to accomplish. The policy instruments on which they were voting were broad, with hidden costs and unanticipated consequences. An ECS poll of Californians found that the majority believed that schools were doing a good job and that, among all government services, they would like to see increases in expenditures at schools. Other polls of citizens facing tax or spending limitation proposals in Colorado, Idaho, Michigan and Oregon found that most people felt that local government provided the most benefits for the taxes paid (Palaich, forthcoming). Given a list of possible services to reduce or expand, only a small proportion of the voters expressed an interest in reducing education expenditures, while about 25 percent of the voters would have approved an expansion of education expenditures. It appears that people may have been saying that services provided at and controlled at the local level, education prominent among them, are desired although the tax mechanisms used to support such services, especially the property tax, are disliked and perceived as unfair.

Minimal Competency and Basic Education

The tax and expenditure limitation activity of last year is only one manifestation of what appears to be renewed public interest in fiscal accountability and efficiency in the operation of public services. Likely to have even stronger effects on the provision of education in the future are two other issues: minimal competency testing and basic education. These two issues have arisen in part due to the belief that achievement levels have been falling. This belief has been exacerbated by public difficulty in understanding why costs have been rising when the number of students has been declining.

Few movements have grown as rapidly as the one supporting mini-

mal competency testing. In 1976 only four states had enacted legislation and only four state boards of education had adopted resolutions requiring some form of minimal competency testing. By 1977, 11 states had passed legislation and 20 state boards had adopted resolutions on the matter. In 1979, a total of 36 states had some type of minimal competency testing required for graduation from high school or for grade-to-grade promotion. Minimal competency testing may be tested in the courts to determine whether its requirements violate students' rights. Such a test is already underway in Florida and the outcome is likely to have a large impact on the future direction of the movement.

The move to incorporate some recognition of basic education in school finance is, in part, an outgrowth of court decisions in school finance cases as well as a reflection of public concern for accountability. Court rulings finding school aid systems in violation of education clauses of state constitutions, particularly those that require the system to be "thorough," "ample" or "efficient," have spurred interest in the state's role in providing basic education. A number of states are examining how dollars or education resources are related to pupil services and pupil achievement. Washington made a bold move last year by broadly defining a basic education program. The new law spells out program requirements for hours of instruction according to specific grade levels and types of curriculums. State-mandated pupil to teacher ratios tie the basic program to state support, and the state is required by law to fund completely those expenditures required to deliver basic education in every school district.

School Finance Reform in the States

Given the legislative activity that has surrounded the tax and spending limitation phenomenon, the minimal competency testing movement and the basic education issue, it is not surprising that only a few states joined the ranks of those that had undergone major school finance reforms. Nevertheless, two states did completely revise their school finance systems and a number of other states made important revisions in 1978-79.

On April 26, 1979, the governor of Connecticut signed into law a new state school finance system. The law was a direct response to the state supreme court's decision of April 1977, in *Horton v. Meskill*, that upheld the superior court's decision of December 1974, which declared that the state school aid system violated the equal protection and education clauses of the state constitution.

Prior to 1974, state general aid was distributed through a flat grant

system that provided $250 per pupil. In 1975 the legislature implemented a system which provided an equal opportunity to generate funds when districts taxed themselves at similar rates. Within the system all towns were ranked by their wealth, which was defined as the product of their equalized property wealth per capita and the ratio of the town's median family income to the median family income of the state. All towns below the 85th percentile in such a ranking were entitled to receive state support. During the initial two years of the program, a capping system limited GTB aid to a small percentage of the flat grant, resulting in most eligible towns receiving a flat grant of less than $25 per student. In the last two years of the program, the system was modified so that districts received between $20 and $200 per student. Full funding of the GTB program would have cost the state over $400 million in 1978-79, an amount that exceeded the total state support provided for general and categorical programs in that year.

In 1977 the State Board of Education created the School Finance Advisory Panel, which undertook a study of the state system using federal "842" funds. In January 1979, the State Board of Education issued a report based on the panel's findings and recommendations. The board proposed a new school finance system based on the GTB approach. It recommended that the flat grants be eliminated and that every town, with the exception of the most wealthy one, be eligible to receive state basic aid. It also proposed that there be requirements for minimum expenditure levels and maximum state aid allotments.

The new state aid system incorporates these provisions in a five-year phased-in program. The income factor in the GTB program is defined as the ratio of the per capita income of a town to the per capita income of the wealthiest town. In 1984 the minimum expenditure provision, requiring districts to spend at or above the statewide median expenditure level in the second preceding year, applies to all districts except those with wealth below the 85th percentile of all districts and tax rates above the 85th percentile of all districts. The minimum expenditure level is adjusted to reflect additional support for low achieving students, based on counts of children benefiting from aid for dependent child support. The limit of total state support per pupil is the district minimum expenditure level per pupil. While all districts are guaranteed minimum aid of $250 per student in the initial year of the program, such aid is phased out over the five-year implementation period. In 1985 the state will provide between 30 and 70 percent of the excess expenditures associated with special education and between 20 and 60 percent of all transportation expenditures in inverse proportion to the wealth of the school district. The new program also contains provisions concerning the establishment

of district education goals that outline the specific expectations of students in terms of skills, knowledge and competence.

Massachusetts passed a new school finance law to take effect in 1979-80. During the past few years, the state has had problems coordinating its special education and general support systems. Expenditures for special education had risen rapidly and state aid for special education had priority over general school aid. This situation resulted in the distribution of a decreasing proportion of funds through an equalizing mechanism, threatening both the adequacy and equity of state support for education. The state also has had the highest level of property taxation among all the states.

The new state aid system uses a pupil-weighted foundation program approach in place of the percentage equalizing approach used previously. The foundation level is the statewide average expenditure per weighted full-time equivalent (FTE) pupil. Within the program, district wealth is measured on the basis of equalized assessed property valuation per capita, rather than on a per pupil basis, in order to reflect the ability of municipalities to finance education and noneducation expenditures. Property is assessed at varying rates depending on its use. Residential property is assessed at 40 percent of full market value, while commercial property is assessed at a rate of 50 percent, industrial property is assessed at a rate of 55 percent and open space is assessed at a rate of 25 percent.

The new system is designed to recognize the differential education needs of students and to equalize support for high expenditure educational programs through the use of a pupil-weighted approach. Under the system, each FTE pupil enrolled in regular programs is assigned a weight of 1.00. Pupils in bilingual programs receive a weight of 1.40, reflecting the state's assessment that such programs are 40 percent more expensive than regular programs on a per pupil basis. Pupils enrolled in special education programs receive a weight of between 2.50 and 6.30. Pupils enrolled in vocational programs receive a weight of 2.00. All Title I eligible students receive an additional weight of 0.20 to reflect additional expenditures associated with compensatory education programs.

The state expects to pay for all transportation services provided by school districts, including the use of public transportation and transportation for pupils attending nonpublic schools. In 1979-80 the state will fund approximately 50 percent of such expenditures. Expenditures for capital outlay and debt service are reimbursed under the new formula on a percentage equalizing basis with the portion of total approved expenditures to be payed by the state dependent on district wealth.

A save harmless provision in the new formula assures that districts will receive at least enough state aid to increase the total operating expenditures of the district by seven percent over the level of the previous year. An important feature of the new law is a new proration factor for distributing state aid when available state support is less than that required. Under the old system, available state aid was prorated on an equal basis to all districts; that is, all districts received the same proportion of funds they would have received if the state had provided full funding. Under the new law, less wealthy school districts receive a larger proportion of the state aid that would have been available to them under full funding as compared to wealthy districts. This procedure reduces the impact of lower state appropriation levels on poor schools' districts.

While California did not pass a new school finance law, having done so a year ago in AB 65, it did drastically change its method of support for schools in light of the impact of Proposition 13. SB 154, the "bailout bill," was the legislation authorizing distribution of state support to schools in 1978-79. Under the provisions of that bill, a portion of the state's revenue surplus was used to partially offset the loss of local property tax revenues. The bill guaranteed that school districts would receive between 85 and 93 percent of the revenues that had been projected as necessary to operate schools in 1978-79. State aid was set as the difference between the approved expenditure level and the local property taxes allocated from the county. The variation in the percentage of approved expenditures was designed to increase spending in low spending districts. For 1978-79, school districts received block grants totalling $2 billion to assure maximum flexibility and to protect against the erosion of essential instructional services.

While little is known about the precise impacts of Proposition 13 in 1978-79, it is clear that numerous services offered through schools were cut back or eliminated, including summer school programs, adult education and community service activities. The legislature required that the teachers' salaries remain constant between 1977-78 and 1978-79. Continued capping of teachers' salaries is likely to have consequences in the future for collective bargaining and teacher mobility. The largest factor likely to have an impact on schools next year is the continued availability of a large surplus of state revenues, given the likelihood that fundamental changes in the funding of all local public services will not occur this year.

Idaho was the state in which education was most likely to suffer after the passage of a tax limitation. Proposition 1, a copy of California's Proposition 13, passed in November although there was no state surplus to bail out funds lost at the local level. The Idaho re-

quirement to limit property taxes was statutory rather than constitutional, giving the legislature some flexibility in determining when the limitation would go into effect. The legislature's response to the mandate was to push the effective date of the limitation to 1980 and to limit increases in state expenditures severely. In 1980, school districts will need only a majority vote to increase local support beyond the one percent property tax level while all other functions will require the two-thirds majority specified in the proposition. These modifications alone will greatly reduce the impact of the tax limitation for school districts. The legislature also reduced the levying authority of local school districts from 27 to 20 mills, and modified the foundation program levy from a requirement to a chargeback so that state aid would be calculated as if it is imposed although its imposition is not mandatory. A county four-mill levy has been eliminated entirely.

It appears that for 1979-80, Idaho school districts will not suffer drastic reductions and, in fact, small increases in expenditures may occur. In addition, revenues from the public school endowment fund and from sales taxes are expected to rise significantly, giving the state increased flexibility to provide school aid beginning in 1980-81.

A number of other states modified their school finance laws in important ways although neither in the fundamental sense that Connecticut and Massachusetts did nor in response to fiscal crises, as was the case in California and Idaho.

In New York a percentage equalizing formula with two tiers was placed in operation in 1978-79. Below $1,450 of expenditures per pupil, a district of average wealth is guaranteed to receive 49 percent of its approved operating expenditures in state aid. Between $1,450 and $1,500 per pupil, a district of average wealth receives 20 percent of its approved operating expenditures from the state. Under this system, less wealthy districts receive higher proportions of state support than average while wealthier school districts receive a lower proportion of state support than average. A flat grant of $360 per pupil continues to be a basic component of the state aid system. A choice of save harmless provisions protect districts from the loss of state aid over time. Districts may choose to receive either the same level of total state aid as was received in the previous year or the same level of state aid per pupil that was received in the previous year. Special state aid is also available to districts with very low levels of wealth and very high tax rates. These changes are viewed as only temporary ones in New York since the state's system of support for schools was declared unconstitutional in 1978. Fundamental changes are likely if the decision in *Levittown v. Nyquist* is upheld.

Texas modified its school finance law in SB 350 by providing tax relief, expanding support for compensatory education and creating a new program to provide funds to growing school districts. The new law recognizes changes in the definition of property that is taxable under the state constitution and provides increased state support that should reduce required local effort under the foundation program. A new program is designed to provide additional state support to districts in which enrollment increases by more than six percent and the tax rate is greater than the statewide average. The state also established a demonstration program for providing services to gifted and talented pupils. The new law calls for a minimum competency testing program to be administered by the Texas Education Agency and to begin in 1980-81.

Illinois changed its school finance law for 1979-80 by eliminating the resource equalizer component of its dual system. That option had allowed districts to choose a tax rate, up to a maximum level, and to be guaranteed equal revenues for equal tax efforts. This option will be phased out over the next three years. State aid will be distributed on the basis of minimum tax rates, effectively becoming a foundation program with a chargeback provision rather than a required local tax effort. This change will provide new state aid to rural areas, where tax rates have not been at the maximum level.

A new school finance law in Oregon took effect in 1978-79. Under the new law, the state provides 30 percent of the approved operating expenditures of school districts, which may not exceed $1,671 per pupil. Of the remaining 70 percent of expenditures, the state pays the difference between the total and a local share, which is determined by multiplying a variable tax rate times the equalized assessed property value of the district. The variable tax rate is based on a statewide constant tax rate and the expenditure level of the school district. Thus, as expenditures rise, required tax rates rise also.

South Carolina's weighted pupil foundation program, which passed during the 1977 legislative session, went into effect in 1978-79. The state guaranteed $791 per weighted pupil in average daily attendance. Average state support was 70 percent of district expenditures. Under the old school finance system, no local contribution was required. Under the new system, school district wealth is measured by equalized assessed property valuation adjusted for federal impact aid revenues.

Pupils are weighted by grade level and classification in one of 11 special education categories. Pupils in grades 1-3 and 9-12 receive additional weighting in comparison to pupils in grades 4-8. Districts

must spend 85 percent of the aid received for a certain category of pupils on those pupils. The state has established a statewide teacher salary schedule and pupil to teacher ratios. Over the first five years of the plan's implementation, the pupil to teacher ratio is scheduled to drop from 25:1 to 20:1. Approximately $20 million of additional state support will be added in each of the first five years that the plan is in operation.

One of the most significant changes in school finance was implemented in Washington during 1978-79. The new system, a direct response to the decision in the *Seattle School District No. 1 v. the State of Washington*, established the state's responsibility for providing and supporting basic education. This system replaces the foundation program with one based on staff units. Each 23.5 FTE students, excluding preschool handicapped children and secondary vocational education students, generates one staff unit. Additional staff units are provided for support services. The number of staff units for which a district is eligible to receive support is modified in consideration of district sparsity and declining enrollment. The state provides aid to support all eligible staff at the average salary of the school district. Districts are restricted in increasing teacher salaries by a seven percent limit. State categorical programs continue to support special education, compensatory education and other supplementary programs. The state is currently examining its role in providing support for transportation and capital expenditures in order to separate the component of those programs that is required in the provision of basic education.

During the phase-in period for this program, which extends over three years, the local share of support will be derived from a statewide property tax. Districts may supplement the basic education program up to 10 percent of the previous year's level of the program. Local levy limitations may be exceeded if the amount to be raised is no more than four percent greater than the amount raised in the prior year.

In many other states, changes were made primarily in the level of support provided rather than in the mechanisms through which state support was distributed. Increases in teacher salary levels, in per classroom allocations, in foundation levels and in the guarantee levels provided under district power equalizing programs were generally between 5 and 10 per cent across the states.

II. Trends in School Finance Litigation

In late 1971 the California Supreme Court, in *Serrano v. Priest*, held that it was a violation of the equal protection clause of the 14th Amendment to the United States Constitution for the quality of a child's education to be "a function of the wealth of his parents and neighbors." This standard became known as the "fiscal neutrality" theory, since it focused on freeing the tie between the level of expenditures and district property wealth.

This relatively simple legal theory was seized upon as the basis for challenging school finance legislation in many other states. The strategy proved to be a successful one until the Supreme Court handed down its decision in *San Antonio Independent School District v. Rodriguez* in 1973.

In much of the post-*Serrano*, pre-*Rodriguez* litigation, plaintiffs have sought to persuade courts that state school financing legislation discriminated on the basis of wealth, a "suspect" classification, and/or that education was a fundamental right.* This line of argument triggers the "strict scrutiny" equal protection standard of judicial review, meaning that the defendants have the almost impossible burden of showing a compelling state interest to justify the use of the funding schemes under challenge and that no other reasonable, less discriminatory legislative scheme can accomplish the same objective. In *Rodriguez*, however, the Supreme Court found that Texas' system of financing schools did not discriminate against any class of persons considered "suspect" since the case dealt with property-poor school districts, not persons. Moreover, the wealth discrimination complained of in *Rodriguez* did not absolutely deprive any student of an education, said the court, but merely produced relative differences in the quality of education among school districts.

The Supreme Court also held that education is not a fundamental right, since it is neither explicitly nor implicitly guaranteed by the federal constitution. There was thus no basis on which to invoke the strict scrutiny test. The court upheld the Texas system by applying the rational basis standard of equal protection — which places the heavy burden on plaintiffs to show that the law is wholly unrelated to any legitimate state goal.

*For a fuller treatment of this topic, see Levin, 1977.

The *Rodriguez* decision was not the end of school finance reform litigation, although it did change its character. When advocates of reform turned to state courts to challenge school finance laws on the basis of state constitutional provisions rather than the federal constitution, a number of different legal theories, modifying and expanding the original notion of fiscal neutrality, began to appear.

Cases Challenging State Equal Protection Clauses

Some plaintiffs turned to their state constitution's equivalent of the equal protection clause as the basis for declaring their school finance laws unconstitutional. These cases resembled the federal equal protection cases in their arguments. The California case itself was the first to utilize the state equal protection clause. Without determining whether all rights guaranteed explicitly or implicitly by the state constitution are fundamental, the California Supreme Court, in *Serrano II* in 1977, said that at least "those individual rights and liberties which lie at the core of our free and representative form of government, are properly considered 'fundamental.'" Education clearly fits this category, triggering the strict scrutiny test.

Soon after, in *Horton v. Meskill*, the Connecticut Supreme Court held that education was a fundamental right guaranteed by the Connecticut constitution either under the test adopted by the United States Supreme Court in *Rodriguez* (a right explicitly guaranteed by the constitution) or the test adopted by the California Supreme Court in *Serrano II*.

An Ohio trial court, in *Board of Education of Cincinnati v. Walter*, also found that since the state constitution guarantees the right of school age children to attend school in a "thorough and efficient system of common schools," the discrimination among children created by the state system of financing education impaired a fundamental interest. The equal protection claim was upheld by an intermediate level appellate court on the ground that the desire for local control was not a sufficiently compelling state interest to justify interference with the fundamental right of Ohio students to benefit equally from the state school finance system. This decision was reversed on appeal to the Ohio Supreme Court.

In December 1977, in *Lujan v. Colorado State Board of Education*, a motion to dismiss a challenge to the constitutionality of that state's school finance system was denied on the ground that education was an explicitly guaranteed fundamental right, since the Colorado constitution mandated that the legislature establish and maintain a "thorough and uniform system of free public schools." The trial

judge also pointed out that because there is such a close relationship in Colorado "between public education and other rights traditionally recognized as basic and essential to citizenship," education is a fundamental right in that state even without the express constitutional provision. In March 1979, the District Court of Denver ruled that Colorado's method of financing education was unconstitutional on the grounds that it discriminated against children in poor school districts, and that it violated both the equal protection clause and the "thorough and uniform" clause of the state constitution.

And finally, in June of 1978, in *Levittown v. Nyquist*, a New York state trial court upheld that state's system of financing education unconstitutional. Although the judge found that education was not a fundamental right and thus the strict scrutiny standard of review did not apply, he determined that the middle level of review (used by the United States Supreme Court most recently in sex discrimination cases) was appropriate. Under this test, if a statute does not further a substantial (not compelling) state objective and that objective can be achieved by less objectionable alternatives, it is unconstitutional. The New York court found that there were alternative ways of funding education that were less discriminatory, yet would accomplish the state's objective.

Of special interest in the New York case is the court's treatment of the large urban districts — New York City, Rochester, Buffalo and Syracuse — which intervened in what had been a simple fiscal neutrality suit. The trial court found that the state's scheme for funding these districts violated the federal equal protection clause as well as that of the state. The court distinguished *Rodriguez*, noting that in that case the Supreme Court had claimed that there was no showing that the Texas school finance system failed "to provide each child with an opportunity to acquire the basic minimal skills necessary for the enjoyment of the rights to speech and their full participation in the political process." Since there were large concentrations of students in the urban school districts in New York who were "seriously deficient in basic minimal educational skills," the state aid statute violated the 14th Amendment because these students were absolutely deprived of an education and the system lacked a rational basis.

Cases Challenging State Education Clauses

Of more interest are the cases that relied on the education clauses found in almost all state constitutions. In *Robinson v. Cahill*, in the spring of 1973, the New Jersey Supreme Court overturned that state's school finance scheme on the grounds that it violated the command to the legislature to provide a "thorough and efficient sys-

tem of free public schools." In construing this constitutional provision, the court stated that "the Constitution's guarantee must be understood to embrace that educational opportunity which is needed in the contemporary setting to equip a child for his role as a citizen and as a competitor in the labor market." The court then held that there was no relationship between education needs of school districts and their tax bases. This approach has now been followed in a number of recent cases. One such case was *Levittown*, where the New York trial court, in addition to its holding on the equal protection claim, held that the state's financing scheme failed to meet the obligation embodied in New York's constitutional provision that says that "the legislature shall provide for the maintenance and support of a system of free common schools wherein all the children of the state may be educated."

In *Seattle School District No. 1 v. Washington*, a state trial court found that the way in which education was financed in Seattle was a violation of the state's duty to make "ample provision for the education of all children residing within its borders." The state had a duty to provide students in Seattle with "a basic program of education" without the district's having to resort to voter-approved local levies to supplement state funds. The case was appealed to the state supreme court, but while the appeal was pending, the state legislature enacted a new law to comply with the lower court's decision.

In late 1978, the Washington Supreme Court affirmed this decision, in effect reversing its 1974 decision in *Northshore v. Kinnear*. In addition, the highest court in the state of Washington said that the state's constitutional duty to provide "a basic program" meant more than the basic skills of reading, writing and arithmetic. Citing *Robinson v. Cahill*, the court said the state's duty included the provision of the "broad educational opportunities needed in the contemporary setting to equip our children for their role as citizens and as potential competitors in today's market as well as in the market place of ideas."

The Ohio trial court in the Cincinnati case reached a similar result based on the constitutional provision mandating a "thorough and efficient" school system. The intermediate level appellate court, however, reversed the trial court on this point and held that what is a "thorough and efficient system" of schools was within the discretion of the legislature and not for courts to decide.

By contrast, the supreme courts of three other states, in decisions handed down between 1974 and 1976, had upheld their financing systems in the face of challenges under both state education and equal protection clauses: *Olsen v. Oregon*, *Thompson v. Enkelking*

(Idaho), and the previously mentioned *Northshore v. Kinnear* (Washington).

Definitions of Equal Educational Opportunity

In the post-*Serrano*, pre-*Rodriguez* period, equal educational opportunity was defined as the equalization of fiscal capacity (property tax base) or, even more simply, the equalization of per pupil expenditures. A review of the more recent school finance decisions, however, reveals a variety of definitions of equal educational opportunity, and indicates the problem courts are having in applying the fiscal neutrality theory. The simplistic approach allowed for an easily understood and readily grasped standard for measuring the constitutional inadequacies of state school finance laws, but ignored the complexities and variations in state conditions. Thus today, the question of what is equity in the financing of education has received a number of judicial responses.

Equal Education Resources

For the California trial court in *Serrano*, expenditure differences reflected the degree of opportunity provided by the educational system. The court's standard was based on the resources available to students: the state must "provide for a uniformity and equality of treatment to all the pupils of the State," meaning that "the State may not . . . permit . . . significant disparities in expenditures between school districts . . . " The court said that the disparities had to be reduced to "amounts considerably less than $100 per pupil." The level — the "adequacy" — of the educational offering was constitutionally irrelevant; it was the "quality" of the educational program relative to other districts that was the issue.

The California Supreme Court agreed, but also suggested district power equalization as an acceptable alternative to the present system. Since such an approach equalizes the ability (fiscal capacity) of each school district to raise dollars for education, but leaves to local districts the choice of the level of tax effort, expenditure disparities could remain quite large. Thus the *Serrano* case sets forth two seemingly conflicting standards — one requiring the narrowing of per pupil expenditure differences among districts and the other permitting expenditure disparities — no matter how large — as long as they are not a function of district wealth.

Minimal Education Attainment

At first blush, *Robinson v. Cahill*, the New Jersey case, appears to define equal educational opportunity as the attainment of equal

pupil achievement levels: "the educational opportunity which is needed in the contemporary setting to equip a child for his r le as a citizen and as a competitor in the labor market." If the court had stopped there, it would have been proposing an equal achievement remedy, which would of necessity require differential inputs. When analyzed more closely, however, the *Robinson* standard is really one of minimum pupil achievement levels, since the New Jersey Supreme Court went on to say that a "thorough and efficient" education need not be equal across the state: "we do not say that if the state assumes the cost of providing the constitutionally mandated education, it may not authorize local government to go further . . ." *Robinson*, of course, clearly implies the provision of more than basic minimal skills if children are to be able to compete in today's labor market.

Minimal Level of Education Resources

The *Seattle* case also suggests a standard mandating a minimum or basic level of education, although the language focuses solely on resources rather than on pupil achievement. The state's constitutional duty, said the trial court, was to guarantee sufficient funds to support a "basic education" without relying on locally voted levies:

> [Locally voted levies] may only be required or utilized to fund programs, activities and support services of the district which the state is not required to fund. In other words, if the taxpayers in a district desire to offer an 'enriched' program, that is, one which goes beyond that required by the constitution, then they may be required to fund the same.

Thus, once the state fulfills its duty of supplying every district with a basic education, expenditure disparities resulting from local choice may exist, even if they are a direct consequence of district wealth.

The Ohio trial court took a similar position — once the state provided "a general education of high quality" to all school districts, variations in local tax effort among the districts may permissibly result in differences in educational offerings above that level.

Under this approach equal educational opportunity becomes whatever the state legislature determines are basic resources to the education process. Beyond a basic or minimum program, the level of a child's education will be determined by district wealth and/or effort. By contrast, under the *Serrano* approach, at least if tax capacity is not equalized, spending differences among districts of more than $100 per pupil are not constitutionally permissible even if the state fully funds a program of "basic education." On the other hand, the California court's approach, relying as it does on the equal protection rather than the education clause, does not require the state to

provide any particular amount of education, as long as what is provided is not wealth related.

Taxpayer Equity

Yet another difinition of equal educational opportunity, which is neither a resource nor an achievement standard, is suggested by the fiscal neutrality principle, as articulated in *Serrano*. It implies that the state is constitutionally required to equalize tax burdens in addition to (or instead of) equalizing expenditures. "Taxpayer equity" is defined as freeing the tie between "capacity," the district's per pupil property values, and "effort," the district's tax rate. District power equalizing clearly focuses more on insuring taxpayer equity and district "choice" rather than on equalizing either educational resources or student achievement. The level of expenditures for a child's education is still dependent on where he lives — the difference being the disparities in expenditures are related to the preferences of local voters rather than to district wealth. By contrast, both the New Jersey Supreme Court in *Robinson* and the Ohio district court in *Cincinnati*, expressly rejected the concept that there was any constitutionally required "equality" where taxpayers were concerned.

The Trend to "Special Interest" Cases

Although litigation is continuing under state equal protection or education clauses, the most interesting development concerns those legal theories being put forward on behalf of pupils with special (high cost) needs or urban districts with special burdens. The "fiscal neutrality" or wealth-free standard, devised in response to a system in which low property values were related to low per pupil expenditures, failed to recognize the peculiar fiscal problems of central city schools. These problems stem not from low property values but from higher costs for both education and other public services. In *Levittown v. Nyquist*, which was initially brought by a low-wealth suburban school district as a *Serrano*-type case, the four largest cities in New York State intervened as plaintiffs to argue that the "equalization" provisions of the state's school finance scheme were unconstitutional since the provisions regarded per pupil property wealth as the only measure of school fiscal capacity. The court agreed, finding that fiscal capacity was affected by three constraints:

1. Municipal overburden, the noneducational public services which central cities must support out of the property tax, such as police and fire protection or health and welfare services. The gist of the argument was that the comparatively high percentage of the property tax allocated for noneducation public ser-

vices acts as a constraint on the tax rate that can be levied for education. The court was convinced by the evidence that these higher costs exist and are unavoidable. The Ohio trial court in the *Cincinnati* case also found "municipal overburden" to be a constraint on urban districts.

2. Cost differentials, the higher amount per pupil, because of higher prices or wage rates, that urban school districts may pay to provide an educational program comparable to that found in other districts. The New York court held the evidence clearly showed what it termed the reduced purchasing power of the urban education dollar. In the *Cincinnati* case, the Ohio trial court also found that "the large urban, inner city districts have unique and special problems and substantial extra costs which the nonurban districts do not have." Thus, in order to comply with the state constitution's "thorough and efficient" clause and its equal protection clause, the state would have to compensate for these special costs.

3. "Needs" differentials, the presence of high proportion of students who require greater than average educational resources, such as the handicapped, the educationally disadvantaged and the student with limited English language skills. The New York court found that these needs, stemming from urban poverty, existed in overwhelming proportions in the cities and required specialized and costly services. Cities with less state education and greater municipal overburden could not provide the appropriate services. What is in effect an education "needs" differential has also been sought through other education reform litigation. A substantial number of cases brought in lower federal and state courts have now held that there is either a constitutional or statutory right to instruction appropriate to the special needs of the physically, mentally and "linguistically" handicapped.

Pending Cases

A number of suits were filed in the wake of *Serrano II*.* Some of these are moving forward due to the impetus of the recent decisions in New York, Ohio and Washington, while others appear to be in abeyance. Most of these challenges to state school financing laws are grounded in the education-clauses of state constitutions rather than the equal protection provisions. In Arkansas, where the plaintiffs in

*Most of the material in this section comes from *Lawyers' Committee for Civil Rights Under Law, Update on State-Wide School Finance Cases* (Feb. 1978) and from information supplied by David C. Long, Director, School Finance Project, Lawyer's Committee for Civil Rights Under Law.

a complaint filed in 1977, contended that the minimum foundation program violates the Arkansas constitution's requirement that the state maintain a "general, suitable and efficient system of free public schools," preparations for trial are now under way (*Alma School District No. 30 v. Dupree*). Georgia's statutory scheme for financing education was challenged on the basis of the constitutional provision placing upon the state the "primary obligation" to provide an "adequate" education for its citizens, as well as the constitutional provisions requiring uniform taxation (*Thomas v. Stewart*). A motion for summary judgment is presently being prepared in that case.

A complaint was filed in December 1977 challenging South Dakota's minimum foundation clause that mandates the provision of a "thorough and efficient" system of education and the equal protection clauses of the South Dakota constitution (*Oster v. Kneip*). At present, however, the case appears to be quiescent.

A challenge to West Virginia's school financing legislation, initially filed in 1975, was also based on both the education ("thorough and efficient" system of public schools) and equal protection clauses of the state constitution (*Pauley v. Kelly*). Although the lower court found that the right to a "thorough and efficient" education is a fundamental right and that students are entitled to a basic education, the fact that the public schools which plaintiffs attended were not providing this basic education could not be attributed to the state's system of financing education. The court granted the state's motion to dismiss in 1977 and the plaintiffs appealed to the West Virginia Supreme Court of Appeals. That court reversed the trial court's dismissal of plaintiff's complaint and sustained the complaint on the basis of both equal protection and education clauses of the state constitution. The case has been remanded back to the trial court to determine the standards of a "thorough and efficient" system of education.

In 1975 a suit was filed in Wisconsin by Milwaukee taxpayers and their children who were attending the Milwaukee public schools, challenging the constitutionality of that state's system of financing schools (*Tooley v. O'Connell*). The constitutional provisions allegedly violated include the uniform taxation clause, the equal protection clause, and various clauses relating to education, one of which requires the legislature to establish schools "which shall be as nearly uniform as practicable." After surviving a motion to dismiss, the case was remanded to the Circuit Court of Milwaukee County for trial, but nothing further has happened in the case.

A case has been filed in Massachusetts on behalf of the Lowell school district which will go to trial in the spring (*Webby v. Dukakis*). The

plaintiffs, from 10 low property wealth (and low income) rural and suburban towns, contend that the state's system of financing education violates the federal equal protection clause, Massachusetts' equal protection clause, and Massachusetts education clause — which merely says that the legislature has the duty "to cherish the interests of literature and the sciences, and all seminaries of them; especially . . . public schools and grammar schools in the towns . . . "

A challenge to Maryland's school finance system had been filed in the Circuit Court of Baltimore City. (*Somerset County Board of Education v. Hornbeck*). The plaintiffs, Baltimore City and three of Maryland's poorest counties allege that the state provides less money for students in the poorer districts and unfairly offers them "inadequate educational opportunity." The suit maintains that the school finance system violates the equal protection clause of the Maryland Declaration of Rights and the requirement of the state constitution to provide "a thorough and efficient system of free public schools."

Summary

Legal challenges to inequitable school finance system based on state constitutional provisions will undoubtedly continue, spurred on by the recent success of such litigation in Colorado, Connecticut, Ohio, New York and Washington. The relatively simple "fiscal neutrality" theory which, between *Serrano* and *Rodriguez,* was the sole legal strategy for school finance reform in the early seventies, still persists. But a wider variety of legal theories for challenging the constitutionality of state school finance systems had developed, particularly as efforts increase to include the special needs of cities or of certain target pupil populations — such as the physically and mentally handicapped and the students of limited-English speaking ability. To summarize those theories:

The "fiscal neutrality" theory in *Serrano* was a negative standard which merely said that educational opportunities could not be a function of local school district property wealth. This standard has subsequently been broadened: educational opportunities may not be a function of local school district fiscal capacity, which in the case of cities, means that fiscal capacity must reflect municipal and education overburden as well as property wealth. Still another negative standard states that educational opportunities may not be a function of the whims and preferences of school district voters, meaning that the level of expenditures cannot depend on their willingness to approve tax levies.

Finally, there are those cases which have argued for the application

of an "affirmative duty" or "education need" standard. This standard differs from the fiscal neutrality principal in that it requires the state to guarantee a certain education "floor," whereas the fiscal neutrality standard would permit a system which maintained expenditure disparities as long as those disparities were based on local voter choice and would not require the state to provide any particular amount of education. The "needs" standard, in its ultimate form, requires additional resources for pupils with special needs, the level of expenditures being appropriate for the needs of each category of pupil.

A few years ago, what has been described as "backlash" litigation — legal challenges to the new school finance reforms enacted by some states — appeared to be a significant threat. Despite the fact that states have continued to make substantial changes in the way in which they finance education, the threat has never materialized. Most of the "backlash" litigation involved challenges to the "recapture" aspect of district power equalization formulas. Under a "pure" version of such a formula, the state "recaptures" revenues raised in excess of the predetermined spending level and distributes the excess (together with additional state funds, if necessary) to poorer school districts where, because of low property values, the selected tax rates cannot generate sufficient revenues to meet the per pupil expenditure levels guaranteed for those tax rates. Montana's school finance legislation, enacted in 1972, included such a "recapture provision" which was challenged by wealthy school districts as a violation of both federal and state constitutions. The Montana Supreme Court, however, in the 1974 decision of *Woodahl v. Straub*, ruled against the plaintiffs. By contrast, two years later, the Wisconsin Supreme Court, in *Buse v. Smith*, found the "negative-aid" provision of that state's newly enacted school finance law a violation of the Wisconsin constitution. Maine's power equalizing provision, which provided for full "recapture" of excess revenues, was also challenged (*Boothbay v. Longley*). However, in 1976, after the suit had been filed, the legislature revised the "recapture" provision and in November 1977, the statewide property tax was repealed by referendum. No similar legal challenges were brought in 1978.

School finance reform litigation may also be affected by the various fiscal pressures now being experienced by many states. Proposition 13 type pressures for property tax relief, the increasing demand for public services other than education, and the fiscal condition of the states may have an impact on school finance reform. Fiscal problems associated with declining enrollments and the increasing demand for categorical program funds may limit the use of whatever state education support is available for fiscal equalization. The costs of implementing court orders extending education to those previously excluded from a public education or denied an "appropriate" educa-

tion — such as the mentally and physically handicapped or those of limited-English speaking ability — also limits the funds available for fiscal equalization. Whether, and to what extent, these kinds of fiscal pressures will affect school finance reform litigation is not yet clear, but it is a specter on the horizon.

III. Research in School Finance

School finance issues have become well integrated into the whole set of economic and political issues associated with public finance. School finance reform no longer involves only examining alternative state aid distribution formulas; it involves determining the behavioral impacts of new distribution systems, assessing the equity achieved by revenue raising and support distribution systems, analyzing the political implications of education support, measuring public opinion concerning school finance and tax issues, and a host of other public policy and technical issues. Strides have been made in the past year, building on earlier work, in many of these areas. In addition, work is being done to assessing the accomplishments of the reforms that have occurred in the last decade. Perhaps the most significant event in school finance research in the past year was not the conclusions drawn by completed studies, but the initiation by the federal government of a major research effort designed to carefully examine school finance issues over the next three years.

Equity and School Finance Reform

There are at least four major issues related to equity in school finance. The first concerns the conceptualization of equity and a framework within which to define and measure equity. The second issue concerns the measurement of the fiscal capacity of school districts and its impact on equity. The third issue relates to the provision of additional education services for high-cost student populations, and the relationship between categorical programs and general aid programs for equity. The fourth issue concerns the assessment of variations in school district purchasing power and the impact of such variations on equity.

The Conceptualization of Equity

Equity has proven to be an elusive concept in school finance. In the early days of reform, equity simply meant equalization. But in education, as in many other areas of public concern, it is recognized that numerous groups are involved in the provision and receipt of educational services. A basic question arises concerning the groups for whom equity is an objective: students, taxpayers, teachers and so on. Another question concerns the objects that are to be distributed equitably. Are expenditure levels or the services they purchase to be

equitable? Are pupil accomplishments as a result of being exposed to education to be equitable? Once these questions have been addressed, there are others concerning definitions of equity and the ways by which equity is to be measured. Depending on the group for whom equity is to be achieved and the objects that must be distributed equitably, there are different principles of equity that must be considered and alternative measures of the level of equity being achieved.

In the past year, progress has been made in establishing a framework within which these alternatives can be evaluated. It is generally recognized that simplistic notions of expenditure equality and fiscal neutrality, which evolved out of school finance litigation, are not appropriate in considering all of the factors mentioned above. Berne and Steifel (1978) have outlined alternative approaches to defining equity and they have developed statistical measures designed to measure equity. Their work is expected to provide a background for a new activity of the National Center for Education Statistics, which is required by Congress under the 1978 reauthorization of the Elementary and Secondary Education Act, to produce state school finance profiles beginning in 1979 and every other year thereafter.

School District Fiscal Capacity

Most states continue to assess local school district fiscal capacity by assessed valuation of property per pupil. Many states modify the assessed valuation figures by assessment-sales ratios to adjust the vary levels of assessment across assessing jurisdictions. This simple fiscal capacity measure has come under attack in recent years for a number of reasons. First, it has been shown that income is an important determinant of school district fiscal decisions in addition to property wealth (Hickrod, 1979; Yang and Chaudhari, 1976). Second, there is little correlation between property wealth per pupil and income per pupil or household income in many states. Although income and residential property tend to be positively correlated, total property wealth includes commercial, industrial and agricultural property as well as residential property. The existence of many poor families in areas with large proportions of nonresidential property is a major reason income and total property wealth may not be highly correlated. Third, economic research has demonstrated that wealth equalization is a function not only of (1) total property wealth and (2) household income, but also of (3) the composition of the property tax base and (4) the structure of the equalization formula itself (Grubb and Michelson, 1974; Feldstein, 1975; and Ladd, 1975). The effect of these factors on the "price" to local residents of providing education services must be determined in order to design an equalization formula to neutralize all four elements

The basic argument that all four factors influence local school district decisions is as follows: first, without any state equalization aid formula, high property wealth districts are able to raise greater revenues at a given tax rate than low property wealth districts. This argument has led to the development and use of the current set of equalization programs, based primarily on property wealth per pupil. Second, even with such equalization formulas that neutralize wealth differences, however, districts with higher income residents bear a lower percentage burden in providing a given level of education than districts with lower income, i.e., the wealthier group of residents spend a smaller portion of their income. Third, even holding total property wealth and household income constant, districts with a greater proportion of the property tax base comprising nonresidential property (e.g., commercial and industrial property) are able to shift some of the property tax burden to nonresidential property owners. Thus, to raise an additional $100 per pupil, for example, the greater the proportion of property that is nonresidential, the lower the price to residents for the extra expenditures. Finally, the structure of the aid formula is important. For foundation types of systems, the state aid is fixed so long as the district levies the minimum required local tax rate. For percentage equalizing or guaranteed tax base programs, the aid is variable depending not only on local wealth but also the local tax rate. With these programs, state aid will rise as the district increases its tax rate and this additional aid is matched by an increase in dollars raised locally.

An expanding literature on policy analysis treats in detail both the issues of how state aid formulas with a "price" variable and how local fiscal capacity measures, other than total assessed value of property per pupil, affect local district expenditure decisions. Barro (1972) and Inman (1977) have developed the most comprehensive theoretical models for investigating these issues. The Grubb and Michelson (1974), Feldstein (1975) and Ladd (1975) studies of these issues, all using Massachusetts data from about 1970, constitute the major policy research contributions to this issue prior to 1978. In general these authors found that expenditures per pupil increased as income increased, as the proportion of the property tax base that was residential decreased, and as the "price" variable (i.e., matching rate) in the formula decreased. Although the three studies did not produce results that were identical, the general trends were similar. All three studies used cross-sectional data from one year only.

Vincent and Adams (1978), Adams (1979) and Carroll (1979) have recently studied this problem in a diverse set of states and over a period of time greater than in a single year. Using new statistical techniques and looking at states with a variety of approaches to pro-

viding state aid, they conclude that the impact of income and property tax composition on school district expenditures follows the pattern found in the earlier work although predicting the magnitude of the impact and the way in which the two factors interact is complicated. Incorporating factors into state aid formulas needs to be precise, however, in order not to over- or undercompensate for the influence of income in school district decision making. Follow-up work by Adams in 1980 will be designed to determine what conclusions that have been drawn so far are generalizable across states, over time and for different types of school districts.

An additional factor complicating school finance reform that is related to how wealth is measured is land value capitalization. Capitalization refers to the long-run effect that local taxes or expenditures can have on the prices of land and homes. In general, if taxes increase in one school district or if the quality of education services decrease, the prices of homes may decrease, with other things held constant including taxes and spending levels in neighboring districts. Likewise, if taxes decrease or educational services increase, prices may increase. Obviously, in the real world "other things" are seldom constant. Nonetheless, capitalization remains as a spin-off effect of school finance reform and major reforms that significantly change either local tax or spending levels probably, in the long run, will have an effect on the local value of land and homes. A summary of work in this area and the implications it has for school reform has been completed by Wendling (forthcoming). A study of the interaction between land value capitalization and school finance reform has been completed for a sample of school districts in California by Vincent and Reinhard (1979).

Pupil Education Needs and Categorical Programs

As mentioned in the introduction to this booklet, one of the characteristics of school finance reforms in the 1970s has been increased attention to student populations that require extra educational services such as the handicapped, the economically or educationally disadvantaged, the student for whom English is not the dominant language and the student in vocational education programs. The relationship between the financing of these special services and the general aid structure, moreover, has been almost totally ignored by the court cases.

Categorical programs are funded in numerous ways. But, just as many school finance general aid formulas have been shown to be analytically equivalent, so categorical funding mechanisms have been shown to be algebraically the same (Bernstein et al., 1976). One of the emerging issues for the categorical funding mechanisms is the degree to which they, too, provide services that are inequita-

bly related to wealth or income. There is some information that suggests that such inequities occur most noticably in states in which the overall state role in funding education is low (Wilken and Porter, 1976). These inequities refer to the number of students served by categorical programs.

In those states where the state or federal support for categorical programs is not sufficient to fund the full expenditures of the programs it also is of interest to analyze the fiscal equity of the categorical program. While it can be argued that categorical programs are distinct from general programs there are at least two reasons for considering them together. First, local taxes may be used to support categorical and general programs. Second, funds available for categorical programs can often be spent outside of the programs. Under these circumstances it also is appropriate to study the relationship between the categorical and general programs and the equity being achieved by the entire finance system. While it has been shown that funds distributed under Title I of the Elementary and Secondary Education Act modestly improve fiscal equity (Troob, 1977), it is not known how the special education funds, state compensatory education funds or bilingual funds affect equity. There are also questions about other categorical funding currently provided by the state, including funds distributed for transportation or capital expenditures and debt service, and how equitably such funds are distributed (Augenblick, 1977).

School District Purchasing Power

Policy makers in all states know that the purchasing power of the education dollar varies, in some cases dramatically, across school districts in a state. In the past few years, there has been increased interest in developing indices that a state could use to adjust the equalization formula to account for these differences in the costs of providing education services. At the same time, there have been a number of different attempts to develop such indices, some more substantively grounded than others.

The most crude attempts to develop cost indices have been those that simply make comparisons of expenditure differences across school districts. Such attempts are seriously flawed, however, because expenditure differences are dramatically different from cost differences. Differences in education expenditures are caused by two factors: differences in the quality or level of services provided and differences in the cost of providing those services. The former are within the control of local school districts while the latter lie beyond the control of districts and are caused by factors such as geographical location, characteristics of the student body and other demographic characteristics of the school district.

Florida and Alaska currently use cost-of-living indices to account for differences in purchasing power caused by factors beyond the control of school districts. It is generally agreed, however, that the factors associated with the cost of living are not the same as those associated with the cost of providing education services.

Data from several states have been used to develop cost indices using economic modeling and regression analyses. Brazer and Anderson (1976) developed cost indices for school districts in Michigan; Frey (1976) has done similar work for New Jersey; Grubb and Hyman (1976) for California; and Kenny, Denslow and Goffman (1976) for Florida. These studies have all attempted to predict average teacher salaries among districts and then have developed the indices on the bases of the uncontrollable factors accounting for differences in district average teacher salaries.

Chambers, Odden and Vincent (1976) and, more recently, Chambers (1978) have used a slightly different technique. These studies used samples of individual teachers, rather than district averages, to produce cost indices for the state of Missouri. Such a methodology allows one to pick up both inter- and intradistrict factors that may account for salary differences and is based on the fairly well-developed hedonic price methodology that has been used in other economic research.

A similar approach has been used to determine cost differentials among school districts in California (Chambers, 1978), Texas (Augenblick and Adams) and New York (Wendling, forthcoming). Thus far, indices have been developed separately for teacher, administrator, transportation and energy costs. A total cost approach has been used when information about the quality of educational services, in addition to expenditure levels, is available. When developed, the total cost index also yields information about extra costs due to scale of operations, declining enrollments and other factors affecting resource allocation. Refinement is continuing in California and New York using this approach. In 1980, Wendling will be examining the cost-of-education indices generated to date to determine whether districts with similar characteristics have similar indices, whether the indices are stable over time and between states, and whether there is a methodological approach to creating indices that is simpler than that currently being used.

Equity remains, then, a topic receiving a great deal of attention from researchers. New ways of conceptualizing equity have emerged in the past year and new attempts at measuring it have been undertaken. Sophisticated techniques are being developed to properly measure the fiscal capacity of school districts, to consider differences in the education needs of pupils and to assess variations in the pur-

chasing power of school districts. A great many of these findings have been incorporated into state studies of school finance systems supported with federal funds under Section 842 of P.L. 93-380. Many of the 842 studies reflect a sensitivity toward the subtleties of equity definition and measurement. The findings of those and other studies will continue to inform policy makers of one of the most significant aspects of the American education system.

The Impacts of School Finance Reform

The most recent era of school finance reform has been underway for almost a decade. Given the short period of time, it is not surprising that so little is known about the effects of school finance reform on the allocation of resources, education expenditures, pupil achievement and equity. In part this reflects a lack of research in these areas in general. However, given the research that has been undertaken and the length of time that reform has been implemented in some states, it is clear that it is an appropriate time to undertake thorough analysis of the subject. While the 842 studies completed by individual states have looked at changes in school finance over time, it is difficult to take the information provided by one state and compare it to that available in another state.

Several studies have begun to look at the fiscal and programmatic impacts of reform. The National Conference of State Legislatures legislative handbook (Callahan and Wilken, 1976) is an extensive compendium on the fiscal impacts of school finance reform. Diacoff (1977) and Brazer and Anderson (1977) have also done empirical work on the fiscal impacts of reform in Michigan and Kansas. Hansen and Nelson have studied the impact of the 1973 school finance reform in Wisconsin (1978). Changes in the Texas school finance system have been analyzed by Wilken (1978) and Augenblick and Adams (1979). Illinois has made an effort to annually evaluate its school finance reforms under the direction of the Center for the Study of Educational Finance at Illinois State University (Hickrod et al., 1976, 1977 and 1978).

Although based on the stratified sample school district data from the Elementary and Secondary General Information Survey (ELSEGIS) for 1975-76 conducted by the National Center for Education Statistics, which gives biased results for individual states, the September 1977 Interim Report of the Assistant Secretary for Policy and Evaluation at HEW entitled "School Finance in the Seventies: Achievements and Failures," concludes that few school finance reforms have been effective in reducing expenditure per pupil gaps among districts within a state (Brown, Ginsberg, Killalea and Tron, 1977). For those expecting spending gaps to have decreased, such

findings are a disappointment. As mentioned earlier, however, programs aimed at taxpayer equity are not designed to close spending differences, although many policy makers believed that such would be the case. Since the data sample on which this study is based gives biased results for individual states, the conclusions of the study must be treated with caution until the study is replicated with an unbiased data set.

Another issue related to the results of school finance reforms concerns the programmatic changes that occur as a result of reform. In other words, how have new dollars been used at the local level? The initial studies on this topic found that about 80 percent of each new state dollar was used to provide additional services for students; although about 20 percent of each new dollar was used to raise teachers' salaries, the raises were in general less than those of other districts in the region (Kirst, 1976; Barro and Carroll, 1975).

The Rand Corporation has recently completed an analysis of school finance reform in five states under the direction of Stephen Carroll (1979). Looking at California, Florida, Kansas, Michigan and New Mexico and the reforms enacted by those states between 1972 and 1974, the study documents changes in spending, taxes and statewide equity; analyzes the budgetary behavior of school districts in Michigan and how that behavior was influenced by reform and other factors; and describes some of the unexpected outcomes of reform efforts. It is shown that per pupil revenues increased between 1972 and 1977 in all five states while local property taxes declined in all states except Michigan. Expenditure disparities were reduced modestly but tax rates became significantly more equal across school districts in the five states. Reform is shown to have had little impact overall on equalizing the distribution of per pupil instructional expenditures, but significant impacts in some states, most notably California. However, the association between property wealth and expenditures was diminished by school finance reform. In Michigan, it was found that spending in schools increased by six cents for every dollar of unrestricted grant aid while every dollar of federal and state categorical aid increased spending by between 32 and 38 cents.

A number of reasons are offered to explain the apparent lack of accomplishment of school finance reform in the five states. First, each of the reform efforts was designed to serve a number of purposes simultaneously. The goals of school finance reform were diverse and sometimes in conflict. For instance, equalizing per pupil expenditure levels among school districts is a very different goal from equalizing the opportunity of districts to obtain the same revenues at the same tax rates. Second, the states also were providing tax relief and expanding support for education. Limitations on increas-

ing expenditures in low spending districts, in order to promote tax reductions, and hold harmless provisions for high spending districts, in order not to reduce expenditures, interfered with the achievement of either equity goal. Finally, each state adjusted its basic plan to take into consideration special circumstances. Systems to support the special needs of school districts, including cost-of-living adjustments, municipal overburden aid, support for highly educated and highly experienced teachers, and pupil weights to reflect the need for high cost services, tended to reduce the equalization achieved by basic aid.

Clearly, school finance reform accomplished a number of useful ends, even if equalizing spending for students was not improved dramatically in all states. The report concludes, however, that it is possible, and likely, that expenditure disparities would have grown larger had reform not been undertaken.

A third concern surrounding the increasing state role in financing public education is whether control of the education process will swing to the state level as well. Although past research has shown that there is no systematic relationship between state control and the level of state aid (Levin, 1972), state and federal legislation, regulations and guidelines have produced a general shift in the past decade toward more centralization in the running of schools. This shift has been of concern to many people.

It is expected that, in the future, the impacts of school finance reform will be a primary topic of study. In part this is likely to occur since those states that have not undergone reform will need to be shown the results of reform if they are to be encouraged to modify their systems. Also, school finance is inextricably linked to the tax limitation issue and to other manifestations of the public concern for efficiency. There is a need to show what the effects of education expenditures are in every state. A major topic of interest will be whether such expenditures are used more effectively in states that have undergone reform as compared to those that have not reformed.

The Federal Study of School Finance

The federal role in school finance has been fairly consistent since the passage of the Elementary and Secondary Education Act of 1965. Since that time, the objective of the federal government has been to equalize the educational opportunities available for special populations of students, including those from poverty backgrounds in need of compensatory education, students in special education programs,

bilingual students, native American students and ethnic minority students. The reauthorization of ESEA in 1978 recognized that states had also made substantial efforts to serve students with special characteristics and it is expected that the restructuring of the rules and regulations along with the provisions of incentives for states should lead to a more effective partnership between the federal, state and local levels.

Congress has also considered the possibility of initiating a federal role in school finance reform. Over the past four years, funds have been distributed through Section 842 of P.L. 93-380 to assist states in research efforts designed to assess the condition of their school finance systems and to develop new approaches for distributing state aid to promote equity. In September of 1977, two days of hearings were held on a bill introduced by the Honorable Carl D. Perkins, Chairman of the U.S. House Committee on Education and Labor, which was designed to help states in equalizing educational opportunities. Subsequently, funds were set aside in the 1978 Education Amendments to support a major HEW study of school finance. This study, which is just getting under way, is expected to take three years to complete. The research agenda of the study is likely to serve as a blueprint of the major efforts in school finance research over the next few years and the conclusions of the study are likely to serve as the basis for any changes to be made in the federal and even state roles in school finance.

The federal study will be conducted by the Department of Health, Education and Welfare. The executive director of the study is Emerson Elliot, a former deputy director of the National Institute of Education. The research director of the study is Stephen Barro, formerly with the Rand Corporation. A 15-member panel to be selected by the President will review the progress of the work and make final recommendations based on the research.

A preliminary research outline has been reviewed by numerous national education organizations and individual researchers, educators and politicians.* The research outline has been designed to meet the Congressional mandate and is divided into five policy areas.

- The determination of an appropriate level of total and federal support for education.

*The research outline is a preliminary one that will be submitted to Congress for review. The final selection of research topics and the initiation of the research process, appointed by the President and Congress, will not occur until a 15-member review panel approve the research plan.

- The role of equity in the distribution of educational resources and costs.
- The relationship of school financing to the services provided and the governance of schools.
- The provision of support to private schools.
- Options for the federal role in school finance.

Within the context of these issues, numerous studies will be undertaken. Recent judicial, legislative and political developments affecting school finance will be reviewed. The mechanisms used to raise revenues and to distribute them to schools will be analyzed for each state. One study will analyze the current level of support for education and changes in the level of support and sources of support that have occured over time. Another study will project what the level of educational expenditures will be in the future in order to maintain existing service levels, to accommodate new services and to equalize all schools up to specific levels of service. A major concern will be to determine if gaps will exist between the revenue requirements of schools and the availability of revenues from all sources so that alternative policies for reducing such gaps can be examined.

One of the central activities associated with the federal study will be the development of standards by which to measure the equity of school finance systems. Once these measures have been defined, profiles of each state will be produced in order to compare states, types of school districts and different pupil populations in terms of the equity being achieved and changes in equity over time.

In conjunction with the analysis of school finance equity a major effort to determine the effects of school finance reform and other changes in the funding of education on education expenditures and tax burdens will be undertaken. A major objective will be to determine how changes in the financing of education have affected different types of school districts and different categories of pupils. In addition, the effects of school finance reform on property values, housing patterns and enrollment patterns will be analyzed.

Another set of studies will be designed to determine the programmatic effects of changes in the funding level for education and changes in factors other than funding levels. These studies will examine changes in services provided, resources available and curricula for districts with different characteristics and for students with different education needs. School finance reform will also be examined to determine if it is associated with changes in labor relations, the locus of control of education and the governance of education. A review of the literature concerning the relationship between expenditures for education and education outcomes will be undertaken.

In regard to private schools, the federal study will provide background information on the composition and determinants of enrollment at private schools. The types of services provided in private schools and how they are financed will also be examined. The relationship between the private and public school sectors will be analyzed to determine how changes in the funding of one sector have impacts on the other sector. Alternative methods of providing support for private schools will be analyzed within a context of their need for support and the desire to make federal, state and local education programs available to all students.

The final group of studies will use the results of some of the previous studies to answer questions concerning the nature of the role of federal involvement in school finance, the effects of federal involvement in the past, possible new roles in the future and the likely impact of changes in the federal role. Within this context, an analysis of current federal programs will be undertaken as well as an examination of state programs designed to serve the same ends as current federal programs. The fiscal effects of federal involvement, particularly the extent to which federal funds stimulate the expansion of or substitute for state funds, will be analyzed. The effects of federal requirements on the services offered, pupils served, staff required and on the decision-making process in school districts will be studied. An important component of this study will be an analysis of the flow of noneducation program funds, such as those distributed under the Comprehensive Employment and Training Act (CETA) to school districts and the impact such funds have in schools.

It is clear that the federal study will involve a tremendous effort. It should draw upon a great deal of what has been accomplished by research in school finance over the past decade. The study should draw together researchers in academic institutions, national organizations, the states and schools to focus the energy that has been generated by school finance reform. This effort is one with which all persons concerned about school finance reform need to be acquainted and it is one that is likely to have a profound effect on school finance at the federal, state and local levels over the next decade.

IV. Prospects for 1979-80

ALABAMA — The 842 study has been completed although no legislation is expected based on its results. The study was designed to define an adequate and equitable education program for the states. Instructional programs, support services, facilities and local taxation were the primary components of the study.

ARIZONA — A special session of the legislature will be held in the fall of 1979 and school finance will be the primary topic of discussion. Property taxation, adequacy of education support and aid for highly populated areas are expected to be the issues of concern. The results of an ambitious 842 study should be available to guide discussion of these issues.

ARKANSAS — A constitutional convention was held in 1979 with emphasis on taxation, local government and education. The 842 study has been completed and two concerns have emerged: the adequacy of state support for education and the method of determining local district wealth. Equalizing assessments across school districts and the taxation of public utilities are issues expected to be reflected in legislation during this session.

CALIFORNIA — A major government finance bill designed to provide long-term financing for counties, cities and school districts is currently under consideration in the legislature. AB 8 will streamline the property tax system by allowing property taxes to be collected only at the county level. Although cities and school districts will be entitled to a share of the property tax revenues, these monies will be spent primarily at the city and county level. School districts will be funded almost entirely by the state from state revenue sources. The bill incorporates new revenue limits for school districts which govern what local school districts receive in state aid. For 1980 the school district spending at the statewide average is allowed a 9 percent increase in total expenditures over the 1979 school year. Districts spending below the statewide average are entitled to an increase slightly above 9 percent, while districts spending above the statewide average are allowed an increase of less than 9 percent. This revenue limit feature becomes more restrictive over time, declining to 8 percent in 1981, 7 percent in 1982, 6 percent in 1983 and 5 percent in 1984. This bill, which has been proposed to replace the bailout legislation

passed after Proposition 13, would bring the state's overall support of elementary and secondary education to approximately 80 percent. Passage is expected in late July.

COLORADO — An interim committee on school finance has been formed to study school finance during the period when the *Lujan* case is under appeal. Basic changes in the state's district power equalizing system may be required to assure a minimal level of education services for all pupils. An amendment to the current legislation supporting educational services for the handicapped has been proposed which would expand services for new categories of exceptional children, particularly the gifted.

CONNECTICUT — Attention will be paid to implementing and monitoring the school finance legislation passed in 1979.

DELAWARE — Legislative action is being sought in the areas of basic education and education for exceptional children. Legislation creating basic skills instructional units was approved in the last session but no funds were provided. The governor's proposed 1980 budget includes $1 million to support the employment of specialists for the purchase of materials focused exclusively on basic skills. The state board of education has established the funding of programs for gifted and talented students as one of its 1979 priorities. Its program calls for extra funding to be available to support one gifted unit per 600 children. The state will be examining its programs for handicapped students in relation to federal requirements. The final report under the 842 study, conducted at the University of Delaware, is expected. The major emphasis of that report should be the equalization of property assessments throughout the state.

IDAHO — The major emphasis of legislation this year has been on dealing with the one percent property tax limitation. Because Proposition 1 was a statutory rather than a constitutional amendment, the legislature has been able to modify its impact somewhat, particularly in terms of when it will take effect. While a plan to deal with the property tax limit is in place, legislative attention will be on monitoring its effects over the next two years. Additional bills related to property taxation and legislation to increase transportation funding are expected. The results of the state's 842 property assessment, declining enrollment and funding of special education programs will be made.

ILLINOIS — No major changes in the school finance system are expected. The results of the 842 study will become available, touching upon such issues as property assessment, property classification, use of income in measuring school districts' wealth, the cost of state mandated services, capital expenditures, special education expendi-

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tures and transportation expenditures. Some expect this research, in conjunction with expenditure limitation proposals, to lead to new school finance legislation in the next two years.

INDIANA — Indiana has completed a preliminary summary of its 842 studies. The studies found that districts with higher property wealth per pupil tended to have higher expenditures per pupil, higher staffing ratios, greater number of more experienced teachers and higher levels of revenues collected from nonproperty tax sources. It was also found that districts with declining enrollments had lower increases in total assessed valuation, although on a per pupil basis, the wealth of such districts appeared to be escalating more rapidly than average, jeopardizing their share of state aid. Recent modifications in the formula, incorporating pupil weights for categories of special and vocational education, were found to cover adequately the additional costs of such programs while also distributing sufficient additional aid to urban districts to alleviate problems of high cost, caused primarily by greater than average enrollments of pupils in special programs. A need was found for increased participation by the state in the financing of facilities, a need which has not diminished with declining enrollments. Debt levels were found to be equalized by current state aid programs. A study of the state and local tax collection system found a shift in the burden of school support from local districts to the state. An examination of the incorporation of an income factor in the formula concluded that it would shift state aid to nonmetropolitan districts at the expense of urban and suburban districts.

IOWA — The governor has proposed a school finance bill that would provide for a declining enrollment factor and would limit budget increases based on changes in the consumer price index. The 842 study undertaken by the department of education found that public school enrollments have decreased significantly between 1970 and 1978 and that further enrollment decline can be expected. It also found that school district size generally affected pupil-teacher ratios, teacher salaries, degree status of teachers, and the percent of budgets devoted to professional support staff such as librarians, teacher aids or guidance counselors. Research efforts directed at wealth and finance equity produced these findings: There is a low positive correlation between assessed valuation and income (.38). Districts with high assessed valuation generally had fewer pupils, higher district costs per pupil and had lost a greater percentage of pupils over time than did other school districts. State aid was found to be inversely related to assessed value and districts receiving the most state aid were taxing themselves more heavily than others. The study recommended increas-

ing state funding through the inclusion of the statewide average expenditure level in the state aid formula and by allowing up to 90 percent of the budget to be paid for by the state. It also recommended that when enrollments decrease below 300 students factors other than the enrollment level be used in determining the aidable budget level of the district. The study also spoke to the issue of school district consolidation, pointing out that equity of educational programs is most efficiently and effectively provided in larger school districts.

KANSAS — Numerous interim legislative study committees have been operating, including ones examining state and local tax structure, bilingual and multicultural education, special education and school finance. The school finance committee has recommended changing the definition of school district wealth so that 50 percent, rather than all taxable income is counted. The committee has also recommended that state aid for special education be increased so that, with the inclusion of federal funds, all excess costs could be met. Finally, the committee has suggested changes in the state aid formula so that P.L. 874 funds can be counted as local revenues. These actions, and the possibility of the creation of a bilingual education program for elementary schools, appear to be the most important issues for 1979-80.

KENTUCKY — The legislature is considering a property tax rollback that would affect the state role in education finance. At this time the direction of any changes is not known.

LOUISIANA — The study of the state school aid system indicated that new measures of local fiscal capacity needed to be considered and that there should be a change in the unit of funding from the classroom to the pupil. A legislative joint committee has conducted a study of the use of education vouchers, which would be a fundamental change in the method of state support and legislation is anticipated related to that concept.

MAINE — The Interim Education Finance Commission has proposed changing the state share of education support from 50 to 55 percent. The legislature is also considering the inclusion of an income factor in measuring local district wealth and the extension of special education services to pre-school children.

MARYLAND — A bill has been proposed that would require the state to assume full funding for elementary/secondary education. Under the proposed system, county income taxes would be eliminated and education would be funded through state income and uniform property taxes. Another bill would create a compensatory education program while eliminating the extra support provided in school districts with high levels of population density. Under this system, all school

districts and not just Baltimore, would receive aid in support of students with special needs.

MICHIGAN — No major changes to the current school finance system are being considered. There is expected to be an expansion in the level of support for basic aid and several categorical programs and there is concern about the needs of cities.

MINNESOTA — The governor has proposed a school finance program designed to take into consideration inflationary increases in expenditures and to promote the improvement of instructional quality in elementary schools. This program also would provide additional support for small or sparsely populated school districts. An Educational Finance Task Force is being established to make recommendations concerning the future needs of the state's schools. One issue likely to receive attention is transportation, an area of concern that emerged from the 842 report recently completed. Other bills support additional aid for districts with large proportions of highly qualified teachers and new methods for determining the assessed value of agricultural land, to be based on rental value.

MISSISSIPPI — A recent court decision requires that property be assessed at 100 percent of market value by 1982 and the implementation of that mandate, which will affect school finance, is likely to require a great deal of attention. The Committee for Equalizing Public School Finance, supported by 842 funds, has completed its study. It found that: (1) the financing of public schools is inadequate, (2) there is a need for increased local support for education, (3) the economic index used to assess district fiscal capacity is not adequate, (4) district consolidation would promote increased efficiency in the use of state funds and (5) there is a need to improve the method of counting pupils so that the amount of time spent in different educational programs can be recognized. Legislation addressing these findings can be expected in 1980-81.

MISSOURI — A number of bills have been proposed that affect school finance. Property assessment practices are expected to receive wide attention. A property tax reform measure calls for reevaluation of assessments, a property tax reduction and a tax limitation procedure. Another property tax bill calls for statewide reassessment by 1983. Other bills require the abolition of ad valorem property taxation and the replacement of lost revenues with local or state sales tax receipts or income taxes. The state is monitoring its new school finance law as it enters the third year of a four-year phase-in period It is estimated that an additional $66.7 million will be phased in for the 1979/80 school year, keeping the state on course with its goal of spending an additional $200 million over the four-year phase-in period.

NEBRASKA — Property tax relief continues to be a priority of the legislature. Property assessment practices are receiving attention and the need for a system of equalizing assessments, at least for the purpose of distributing state aid, is apparent. A major concern in the school finance formula is the way in which local wealth is measured and it is expected that an income factor will be discussed for inclusion in the formula. It is also recognized that state aid is inadequate and that the reliance on local property taxes is extremely high. Changes in the state aid system are expected to address these issues, within a framework of property tax reduction.

NEVADA — A study of school finance has recently been initiated and recommendations are due in 18 months. A bill has been proposed to increase funding for the current school finance system. There is legislative interest in expanding student counseling programs, educational services for handicapped children and programs to meet the education needs of the community.

NEW HAMPSHIRE — Legislation is expected concerning property revaluation. A study of the assessment of public utilities is being undertaken.

NEW JERSEY — Numerous studies of the impact of the state's revised school aid law are being undertaken although it is not expected that new legislation will be developed this year. One of the primary issues is the support of urban school districts, which have not received as great an increase in state support as was expected. A related issue that had emerged is the measurement of the fiscal capacity of school districts. The incorporation of a municipal overburden factor and an income factor in the new state aid formula are under consideration. In addition, careful attention is being paid to district consolidation proposals.

NEW YORK — A great deal of activity in the state reflects the *Levittown* decision of 1978. The New York State Special Task Force on Equity and Excellence, has outlined a broad research agenda including the measurement of equity, the examination of alternative definitions of school district wealth, the determination of cost-of-education indices for each school district and an assessment of municipal overburden. The recommendations of the task force should be available late in 1980. In the interim the legislature is examining new systems to support special education and to distribute aid to property poor or high tax school districts.

NORTH CAROLINA — It is expected that a study of property assessment practices will be undertaken in light of the recommendations of the 842 study. That study proposed that state aid flow on the basis of the number of classrooms in operation and the wealth of school districts. Additional support was suggested for isolated but essential schools. Legislation

designed to implement the school finance recommendation is expected to be introduced.

NORTH DAKOTA — The 842 study has recently been completed. The major emphasis of the study was the problems associated with the operation of small high schools. Transportation also received special attention. The study recommended that property assessment practices be reviewed, that declining enrollment be considered in the distribution of state aid and that the foundation program be restructured so that greater equity could be achieved. The study also focused on the distribution of mineral tax funds and the funding of special education. The legislature is considering modifications in the foundation program as well as additional support for transportation expenditures.

OHIO — The governor and the legislature, have made school finance the top priority of the legislative session and fundamental changes in state support are expected. Under consideration is a plan to incorporate all categorical programs into a weighted pupil formula so that the education needs of all students can be met through an equalized system. The objective is to provide similar resources to all students with similar education needs and to promote local control over the use of funds. This system would differ from the guaranteed tax base system that provided different revenue levels for districts taxing themselves at different rates.

OKLAHOMA — A number of interim studies have been proposed including one to assess the impact of the state's fully assuming the funding of schools. Additional studies will examine education services provided to handicapped children and alternative systems of providing state capital support to improve the safety and usefulness of school buildings.

OREGON — The legislature is examining a proposal to revise the basic school aid system and base it on the ratios of teachers to students and administrators to teachers. This proposal also calls for a reduction in local support. Another bill recommends increasing state aid for small schools. Tax relief remains a major concern in the state.

PENNSYLVANIA — The major legislative action expected is full funding of the school finance formula. A court case filed in December 1978 *(O'Donnell v. Casey)* challenges the state aid system and a ruling in that case is expected.

RHODE ISLAND — A study of state financing of school capital expenditures is being undertaken and a new formula, consistent with the basic aid formula, is expected to be developed. The state is also examining funding for special education.

SOUTH CAROLINA — The only changes expected are

minor administrative provisions in the new school finance law.

SOUTH DAKOTA — The governor has proposed that a task force be formed to investigate how state school finance affects local school districts. There is an expectation that modifications in the new school finance system, expected to take effect in 1980, will be proposed. The new system was accepted two years ago and a three-year study period was adopted during which comparisons between it and the actual operating system could be undertaken.

TENNESSEE — Minor changes in the school finance system are expected. The 842 study will be completed in June 1979 and its recommendations are expected to be discussed in 1980.

TEXAS — The Texas Legislative Commission on Public School Finance has been reviewing the state aid system during the past several months. Studies describing the school finance system, how it has changed over the past four years, and how it is perceived by educators have been completed. Studies of the state's taxing system have also been undertaken. It is expected that the commission will make recommendations concerning state support for special education, compensatory education teacher salaries, and facilities and the level of local district support. The thrust of legislative consideration will be modifications in the school aid formula to provide similar educational services to students with similar education needs. The legislative will also be monitoring its 1979 adjustments to the state aid formula, including those related to support for gifted and talented students and those related to aid for school districts experiencing rapid growth.

UTAH — Tax limitation and tax relief bills are high on the priority list of the legislature. It is expected that school finance will receive attention in 1980. A major concern of the legislature will be the provision of support for school buildings. An interim report of the legislature has recommended that state capital support be increased, emergency funds be made available to districts experiencing critical problems and that any new system of support not interfere with local decisions to construct facilities appropriate to local needs.

VERMONT — Numerous proposals are being considered to modify the state aid formulas. An interim legislative committee is considering fundamental changes in the formula and the governor is expected to recommend a number of changes. Major issues are the determination of school district wealth and the appropriate way to incorporate an income factor into the formula.

VIRGINIA — No changes are anticipated this year. A study of the school finance system is

being undertaken and its results and recommendations are expected to stimulate legislative action in 1981.

WASHINGTON — The state is approaching full funding for its 1977 revised school finance law. The legislature is monitoring the effect to support basic education. A number of amendments to the new law may be proposed, including one that would increase local leeway to spend beyond the basic education program and one that would provide additional support for capital expenditures. The 842 study is not complete but is expected to be finished this year with emphases on transportation problems, the value of basic education and state support systems for local district expenditures that exceed the basic education program.

WEST VIRGINIA — Legislative concern is expected to focus on equity in the provision of educational services and on the effectiveness of those services. Modifications in the current formula related to state aid for instructional materials and teaching salaries are anticipated.

WISCONSIN — Attention is being paid to the impacts of declining enrollments and increasing property values on school finance.

WYOMING — The legislature is investing the use of pupil weighted approaches to providing state aid for special education. The 842 study completed last fall concluded that the state's foundation program was reasonably adequate and equitable. A number of recommendations for tax reform were presented, including the equalization of property assessments and the expansion of the statewide property tax, but no legislative change is expected.

Appendix

Glossary of School Finance and Tax Terms

This glossary contains a number of tax, education and statistical terms that are used in school finance research and policy analysis. In order to make comparisons of tax and expenditure data among school districts, adjustments must be made in a number of measures. The purpose of these adjustments is to create a set of comparable numbers and a set of common terms. Standard procedures are used to make these adjustments and the glossary indicates how some of the adjustments are made.

ADA, ADM

ADA is an abbreviation for student average daily attendance and ADM is an abbreviation for student average daily membership. ADA and ADM are the official measures that most states use to represent the number of students in a school district for the purpose of calculating state aid. ADA is always less than ADM.

Assessment Ratios

The assessed valuation of property in most states is usually less than the market value of the property. In other words, owners are able to sell property for a price higher than the assessed valuation of that property. Although most states have a legal standard at which all property should be assessed, assessed valuations are usually below even the legal level and may vary widely among jurisdictions in a state. The actual assessment level or assessment ratio is determined by comparing actual assessed valuations to market values.

Assessed Valuation

The assessed valuation is the total value of property, subject to the property tax in a school district. Usually, it is established by a local government officer and is only a percentage of the market value of the property.

Assessed Valuation, Adjusted

Because local assessing jurisdictions in a state usually have different actual assessment ratios, the reported assessed valuations need to be adjusted in order to compare them among school districts. The best way to make such adjustments is to convert the assessed valuations to what they would be if all counties assessed at 100 percent of market value and then adjust them to the legal standard, for example, 33 1/3 percent. The mathematical way to make the adjustment is to divide the assessed valuation by the assessment ratio and multiply the result by 0.333. The result is called the adjusted assessed valuation. The following is an example:

Consider two school districts, A and B.

District A has an assessed valuation of $200,000.
District B has an assessed valuation of $250,000.

Focusing just on assessed valuations, District A would appear to be poorer in property wealth than District B. However, assume that the actual assessment ratio in District A is 20 percent while it is 25 percent in District B.

Assuming that the legal ratio is 33 1/3 percent, the computation of the adjusted assessed valuation for District A is as follows:

$$\text{adjusted assessed valuation} = \frac{\$200{,}000}{0.20} \times 0.333 = \$333{,}333$$

The computation of the adjusted assessed valuation for District B is:

$$\text{adjusted assessed valuation} = \frac{\$250{,}000}{0.25} \times 0.333 = \$333{,}333$$

Both school districts have the same adjusted assessed valuation. That is, both school districts effectively have the same total tax base, despite the differences in the reported assessed valuations.

Adjusted assessed valuations must be used to compare property wealth among school districts and should be the basis on which state equalization aid is calculated.

Assessed Valuation Per Pupil, Adjusted

The adjusted assessed valuation per pupil is the adjusted assessed valuation for a school district divided by the district's total ADA or ADM.

Categorical Programs

Categorical programs refer to state aid that is designated for specific programs. Examples would be transportation aid, special education aid and aid for vocational education. Equalization formula aid is not an example of categorical aid. Formula funds provide general aid that can be used for any purpose.

Correlation

Correlation is a statistical term indicating the relationship between two variables. When two variables are said to be positively correlated, as one variable increases the other variable also tends to increase. When two variables are said to be negatively correlated, as one variable increases, the other variable tends to decrease.

Correlation Coefficient

The correlation coefficient is a number indicating the degree of relationship between two variables. Because of the way a correlation coefficient is calculated, it always will have a value between − 1.0 and + 1.0. When the correlation coefficient is around + 0.5 to + 1.0, the two variables have a positive relationship or are positively correlated — when one variable gets larger the other tends to get larger. When the correlation coefficient is around zero, the two variables do not appear to have any relationship.

When the correlation coefficient is around − 0.5 to − 1.0, the variables have a negative relationship or are negatively correlated — as one gets larger the other tends to get smaller.

Current Operating Expenditures

Current operating expenditures include education expenditures for the daily operation of the school program such as expenditures for administration, instruction, attendance and health services, transportation, operation and maintenance of plant and fixed charges.

District Power Equalization

District power equalization (DPE) refers to a state equalization aid program that "equalizes" the ability of each school district to raise dollars for education. In a pure DPE program, the state guarantees to both property-poor and property-rich school districts the same dollar yield for the same property tax rate. In short, equal tax rates produce equal per-pupil expenditures. In the property-poor school districts, the state makes up the difference between what is raised locally and what the state guarantees. In property-rich school districts, excess funds may or may not be "recaptured" by the state and distributed to the property-poor districts. Most DPE state laws do not include recapture provisions. However, Montana, Utah and Wisconsin have both recapture mechanisms in their new school finance laws. DPE programs are given different names in many states including guaranteed tax base programs (GTB), guaranteed yield programs and percentage equalizing programs. DPE programs focus on the ability to support education and, thus, enhance the local fiscal role in education decision making. DPE would satisfy the "fiscal neutrality" standard without achieving "uniformity" of expenditures among school districts.

Elasticity of Tax Revenues

The elasticity of tax revenues refers to the responsiveness of the revenues from a tax to changes in various economic factors in the state or nation. In particular, policy makers may want to know whether tax revenues will increase more rapidly, as rapidly, or less rapidly than changes in personal income. The revenues from an elastic tax will increase by more than one percent for each one-percent change in personal income. Income taxes are usually elastic tax sources. In general, elastic tax sources have progressive patterns of incidence and inelastic tax sources have regressive patterns of incidence. Expenditure elasticity may be defined similarly.

Equalization Formula Aid

Equalization formula aid is financial assistance given by a higher-level government — the state — to a lower-level government — school districts — to equalize the fiscal situation of the lower-level government. Because school districts vary in their abilities to raise property tax dollars, equalization formula aid is allocated to make the ability to raise such local funds more nearly equal. In general, equalization formula aid increases as the per-pupil property wealth of a school district decreases.

Expenditure Uniformity

Expenditure uniformity is an equity standard in school finance requiring equal expenditures per pupil or per weighted pupil for all students in the state. (See Fiscal Neutrality.)

Fiscal Neutrality

Fiscal neutrality is a court-defined equity standard in school finance. It is a negative standard stating that current operating expenditures per pupil cannot be related to a school district's adjusted assessed valuation per pupil. It simply means that differences in expenditures per pupil cannot be related to local school district wealth. (See Expenditure Uniformity.)

Flat Grant Program

A flat grant program simply allocates an equal sum of dollars to each public school pupil in the state. A flat grant is not an equalization aid program because it allocates the same dollars per pupil regardless of the property or income wealth of the local school districts. However, if *no local* dollars are raised for education and all school dollars come from the state, a flat-grant program becomes equivalent to full-state assumption.

Foundation Program

A foundation program is a state equalization aid program that typically guarantees a certain foundation level of expenditure for each student, together with a minimum tax rate that each school district must levy for education purposes. The difference between what a local school district raises at the minimum tax rate and the foundation expenditure is made up in state aid. In the past, foundation programs were referred to as minimum foundation programs and the foundation level of expenditure was quite low. Today, newly implemented foundation programs usually require an expenditure per pupil at or above the previous year's state average. Foundation programs focus on the per-pupil expenditure level and thus enhance the state government's fiscal role in education.

Full-State Assumption

Full-state assumption (FSA) is a school finance program in which the state pays for all education costs and sets equal per-pupil expenditures in all school districts. FSA would satisfy the "uniformity" standard of equity. Only in Hawaii has the state government fully assumed most of the costs of public education.

Guaranteed Tax Base Program (GTB)

See District Power Equalization.

Guaranteed Yield Program

See District Power Equalization.

Median Family Income

Median family income usually is that reported in the 1970 U.S. Census. It reflects income for 1969. If the income of all families in a school district were rank ordered, the median income would be the income of the family midway between the lowest- and the highest-income families.

Municipal Overburden

Municipal overburden is an argument that refers to the fiscal position of large cities. Municipal overburden includes the large burden of noneducation services that central cities must provide and that most other jurisdictions do not have to provide or at least do not have to provide in the same quantity. These noneducation services may include above-average welfare, health and hospitalization, public housing, police, fire and sanitation services. These high noneducation fiscal burdens mean that education must compete with many other functional areas for each local tax dollar raised, thus reducing the ability of large city school districts to raise education dollars. The fiscal squeeze caused by the service overburden, together with the concentration of the educationally disadvantaged and children in need of special education services in city schools, puts central city school districts at a fiscal disadvantage in supporting school services.

Percentage Equalizing Programs

See District Power Equalization.

Progressive Tax

A progressive tax is a tax that increases proportionately more than income as the income level of the taxpayer increases. Under a progressive tax high-income taxpayers will pay a larger percent of their incomes toward this tax than low-income taxpayers.

Property Tax Circuit Breaker Program

A property tax circuit breaker program is a tax relief program, usually financed by the state, that focuses property tax relief on particular households presumed to be overburdened by property taxes. That is, it is intended to reduce presumed regressivity of the property tax. A typical circuit breaker attempts to limit the property tax burden to a percent of household income and applies only to residential property taxes. The percent usually rises as income rises in an attempt to make the overall burden progressive. Most states enacted circuit breaker programs initially just for senior citizens, but a few states have extended circuit breaker benefits to all low-income households, regardless of the age of the head of the household. The circuit breaker is based on actual or estimated taxes paid on residential property and generally takes the form of a credit on state income taxes.

Property Tax Incidence or Burden—Traditional and New Views

The traditional view of property tax incidence divided the tax into two components: that which fell on land and that which fell on improvements, i.e., structures. Property taxes on land were assumed to fall on landowners. The part on improvements was assumed to fall on homeowners in the case of owned homes, to be shifted forward to tenants in the case of rented residences and to be shifted forward to consumers in the case of taxes on business property. Nearly all empirical studies based on the traditional view found the incidence pattern to result in a regressive burden distribution, markedly regressive in the income

ranges below $10,000. The new view of property tax incidence considers the tax to be, basically, a uniform tax on all property in the country. Such a tax is borne by owners of capital and, thus, the burden distribution pattern is progressive. Although the new view allows for modifications caused by admitted tax rate differentials across the country, adherents of the new view hold that even with the modifications the tax would exhibit a progressive pattern of incidence over much of the range of family incomes.

Proportional Tax

A proportional tax is a tax that consumes the same percent of family income at all income levels.

Pupil-Weighted Systems or Weighted-Pupil Programs

A pupil-weighted system is a state aid system in which pupils are given different weights based on the estimated or assumed costs of their education program; aid is allocated on the basis of the total number of weighted students. Usually, the cost of the education program for grades 4-6 is considered the standard program and weighted 1.0. For states, such as Florida, that choose to invest more dollars in the early school years, pupils in grades K-3 are given a weight greater than 1.0, typically around 1.3. In other states, high school students are weighted about 1.25, although these secondary weightings slowly are being eliminated. The two major programmatic areas where numerous weightings have been used are special and vocational education. Florida includes weights for 15 different categories of special education and 6 different categories of vocational education. Weighted-pupil programs, therefore, recognize that it costs more to provide an education program for some students than for others and includes the extra costs via a higher weighting. State aid is then calculated and distributed on the basis of the total number of weighted students in each school district. Determining the appropriate weight is a difficult matter.

Regressive Tax

A regressive tax is a tax that increases proportionately less than income as the income level of the taxpayer increases. Under a regressive tax low-income taxpayers will pay a larger percent of their incomes toward this tax than high-income taxpayers.

Revenue Gap

A revenue gap exists when projected expenditures exceed projected tax revenues. Although revenue gaps usually are not allowed to exist in fact for current fiscal years, of importance are the projected values. If revenue gaps are projected, tax rate increases or expenditure cuts, both politically difficult, will be required. Revenue gaps usually occur when the elasticity of expenditures exceeds the elasticity of revenues. This often happens at the state and local level because state and local taxes are, in most instances, less elastic than expenditures. If states want to eliminate the occurrence of revenue gaps and the constant need to increase tax rates or decrease projected expenditure levels, attention must be given to ways to increase the elasticity of state tax systems, usually by increasing reliance on income taxes. (See Elasticity of Tax Revenues).

School District Tax Rate

School district tax rate is the term states use to indicate the local school property tax rate. The tax rate often is stated as the amount of property tax dollars to be paid for each $100 of assessed valuation or, if given in mills, the rate indicates how much is raised for each $1000 of assessed valuation. For example, a tax rate of $1.60 per hundred dollars of assessed valuation means that a taxpayer pays $1.60 for each $100 of his or her total assessed valuation; a tax rate of 16 mills indicates that $16 must be paid for each $1000 of assessed valuation.

State Aid for Current Operating Expenses

State aid for current operating expenses is the sum of the equalization formula aid and categorical aid for vocational education, special education, bilingual education, transportation and other categorical aid programs. (See Categorical Programs.)

Tax Burden (or sometimes Tax Incidence)

Tax burden typically refers to the percent of an individual's or family's income that is consumed by a tax or by a tax system. Usually, one wants to know whether a tax or tax system's burden is distributed in a progressive, proportional or regressive manner. In the United States, a tax system that is progressive overall seems to be the most acceptable to a majority of people. Tax burden analysis takes into account the extent of tax shifting.

Tax Incidence

See Tax Shifting and Tax Burden.

Tax Shifting or Tax Incidence

Tax shifting refers to the phenomenon wherein the party that must legally pay a tax, for example, a store owner, does not in fact bear the burden of the tax but shifts the tax to another party, for example, the consumer of item that is sold in the store. Taxes can be shifted either forward or backward. For example, landlords might be able to shift their property taxes forward to tenants in the form of higher rents, and a business might be able to shift property or corporate income taxes backward to employees in the form of lower salaries. The ability to shift taxes depends on a variety of economic factors and there is great debate among economists over the extent to which some taxes are shifted. It is usually agreed, however, that individual income taxes are not shifted and rest on the individual taxpayer. It also generally is agreed that sales taxes are shifted to the consumer. There is argument over the extent to which corporate income taxes are shifted to consumers in the form of higher prices or to employees in the form of lower wages versus falling on the stockholders in the form of lower dividends. There is also debate about who effectively pays the property tax. Tax incidence analysis examines how various taxes may or may not be shifted.

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